

EX PARTE OR LATE FILED

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June 3, 1993

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Karol M. Sweitzer  
Director  
Federal Regulatory

Ms. Donna Searcy  
Federal Communications Commission  
1919 M Street, N.W.  
Rm 222  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: Ex Parte Meeting - Docket 92-296

Dear Ms. Searcy:

Please be advised that the undersigned, along with Ric Zamora and Lee Bower of Southwestern Bell Telephone Company, met with Ken Moran, Fatina Franklin, and Sonja Rifkin of the Common Carrier Bureau to discuss Docket 92-296, Simplification of the Depreciation Prescription Process. The purpose of the meeting was to discuss potential embedded plant problems. Attached is the information provided to the Commission during that meeting.

Please place this letter and the attachment in the public record of this proceeding.

Should you have any questions regarding this matter please contact me.

Sincerely,



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**SOUTHWESTERN BELL  
TELEPHONE COMPANY'S  
EX PARTE**

**ON**

**SIMPLIFICATION OF  
DEPRECIATION PRESCRIPTION  
CC DOCKET NO. 92-296**

**JUNE 3, 1993**

## **OBJECTIVES:**

- **Obtain depreciation simplification (i.e., Option 4)**
- **Propose mechanism(s) for quantification and amortization of embedded investment in a competitive environment**
- **Obtain rate recovery for increased portion of depreciation and amortization expense**

## **STRATEGY:**

### **1. Need for simplification:**

- **Current method is costly and time consuming for both the Commission and LEC's**
- **Capital recovery decisions must be controlled by LEC's**
- **Current process inhibits ability to compete**
- **Option 4 provides greatest degree of simplification**
- **Simplification must embrace procedures to incorporate complete industry data, expedite implementation, and reduce administrative burden.**

### **2. Simplification will not impact:**

- **Availability of data (i.e., Adherence to Part 32 will be primary)**
- **Adherence to regulatory rules and procedures**
- **Conformance with GAAP (i.e., Depreciation studies will be governed by GAAP)**

**3. Competition and technology have enormous implications on communications arena:**

- **Emerging Competition is rapidly changing the environment**
- **Competition threatens economic life of embedded plant**

**4. Competition threatens revenue recovery of embedded investment**

- **Competitors install latest technology**
- **Additional competition forth coming as result of public policy to promote competition**
- **Revenue recovery is an essential element of the capital recovery process**

**5. Commission and LEC's must work together to achieve forward-looking reform:**

- **Docket 20188 guarantees recovery**
- **Future recovery of investments is tenuous under price cap regulation**
- **Window of opportunity is narrowing**
- **Without revenue coverage write-offs are eminent (last resort)**

**6. Recovery of investments is incumbent upon both Commission and LEC's**

- **SWBT's capital recovery policy**
- **Quantification of theoretical reserve study for embedded investment**
- **Revenue coverage**

**7. Recommended solutions for quantification of embedded investment problem:**

- **Technology (copper & analog) - replace with fiber**
- **Price Cap - pre-1991 embedded investment**
- **Pre-Divestiture - pre-1984 embedded investment**
- **Toll Interoffice Exchange and Feeder (analog circuit and copper investment)**

**RECOMMENDATIONS:**

- **Establish ruling in this proceeding on full recovery of embedded investment**

**or**

- **In this order request a full review of the embedded investment problem, inviting comments on possible solutions**